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No. 10-300

IN THE

Supreme Court of the United States

TIFFANY (NJ) INC. AND
TIFFANY AND COMPANY,
Petitioners,

v.

EBAY INC.,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Second Circuit

BRIEF FOR RESPONDENT IN OPPOSITION

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QUESTION PRESENTED

In *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 854 (1982), the Court held that a defendant is liable for contributory trademark infringement if "it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." Respondent eBay Inc. ("eBay"), the operator of an online marketplace, diligently removes all listings of asserted counterfeit items of which it has actual or constructive knowledge. Consistent with every other federal-court interpretation of *Inwood*, and contrary to that urged by Petitioners, the Second Circuit determined that eBay could not be held liable for contributory trademark infringement based simply on "generalized knowledge" that some counterfeit items may be offered for sale by third parties on eBay's site.

The question presented is whether eBay may be held liable for contributory trademark infringement under *Inwood*, notwithstanding its removal of listings of merchandise it knows or has reason to know are counterfeit, solely because it has general knowledge that other counterfeit items may be offered for sale on its site by unknown users.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6, Respondent eBay Inc. hereby states: eBay is publicly held; eBay does not have a parent corporation; and no other publicly held company owns ten percent or more of the common stock of eBay.

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PRELIMINARY STATEMENT

The Second Circuit's unanimous ruling in favor of eBay was compelled by a straightforward application of the contributory trademark infringement standard articulated in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982). The decision below is not in conflict with any other decision by any court, including the Ninth Circuit. In fact, this is the first court of appeals decision to apply *Inwood*'s settled standard to an online marketplace. Petitioners (collectively, "Tiffany") did not argue below that the *Inwood* standard should be modified in the online-marketplace context. Instead, Tiffany accepted that the *Inwood* standard governs, Pet. App. 23a-24a, 117a-118a, and now only disputes *Inwood*'s application to the uncontested record below – a matter unworthy of the Court's review. *See* SUP. CT. R. 10. The fact that the decision below is the first to apply *Inwood* to an online marketplace also weighs heavily against a grant of certiorari and in favor of allowing the lower courts the opportunity to develop the law in this area.

The Second Circuit's application of *Inwood* is grounded solidly in the record and is legally correct. Its holding that *Inwood* requires knowledge of *specific instances of infringement* comports with the plain language of *Inwood*; with the Court's discussion of *Inwood* in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984); and with consistent judicial interpretations of *Inwood* by other courts – including the Ninth Circuit – in other market settings. It also comports with the traditional responsibility of trademark owners to police their trademarks.

The premise of Tiffany's petition – that *Inwood* should be stretched to impose liability based merely on general awareness that unknown eBay users may be selling counterfeit Tiffany merchandise – has no basis in *Inwood* or in any other facet of existing contributory trademark infringement law. The asserted conflict with *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996), does not exist. The Ninth Circuit did not consider the distinction between general and particularized knowledge of infringement, let alone hold that general knowledge suffices to impose contributory liability. Rather, *Fonovisa* concerned a "swap meet" (flea market) organizer's *willful blindness* to particularized trademark infringement, which Tiffany indisputably failed to prove against eBay.

The respective records in *Fonovisa* and in this case could not be more divergent on the fact-laden issue of willful blindness. The swap meet operator in *Fonovisa* was alleged to have had the opportunity and ability to physically inspect items for sale and to exclude infringing vendors, but it instead disregarded the vendors' blatant infringement "with impunity." 76 F.3d at 265. This case, by contrast, involves a massive, online marketplace in which third parties buy and sell millions of items. eBay cannot physically inspect, examine, or authenticate the listed items. What is more, the district court determined after a full trial, in findings affirmed by the Second Circuit, that notwithstanding these limitations, eBay has taken numerous "significant" and "reasonable" steps to prevent counterfeiting, as reflected in its commitment of very significant "financial, technological, and personnel resource[]" investments in developing anti-fraud tools. Pet. App. 31a-34a; 142a-146a. This fully developed trial record

was recognized by the courts below to reflect the antithesis of willful blindness, and the Second Circuit distinguished *Fonovisa* on that basis.

Tiffany's attempt to revise the *Inwood* standard by jettisoning the distinction between particularized and general knowledge would, if adopted, undercut the policy rationale for circumscribed application of the contributory infringement doctrine. Limiting the scope of the doctrine keeps the primary burden for policing trademarks on the marks' owners, who have both the economic incentive and expertise to perform this function. Tiffany's proposed interpretation of *Inwood* would result in a radical shifting of the burden traditionally borne by trademark owners onto third parties. That shift would adversely impact not only eBay, but also other online services that offer important, socially beneficial secondary markets for genuine merchandise. The danger is not conjectural. The Second Circuit recognized from the trial record that adoption of Tiffany's proposed legal test would have the effect of "[r]educing or eliminating the sale of all second-hand Tiffany goods, including genuine Tiffany pieces." Pet. App. 7a. The court cautioned that this result "would benefit Tiffany" by "diminish[ing] the competition in the market for," and "unduly inhibit the lawful resale of," genuine Tiffany goods. *Id.* at 7a, 19a.

If such an upheaval of newly developed markets that have "revolutionized," *id.* at 3a, the online sale of goods were to be considered, Congress is the appropriate branch of government to do so after evaluating and weighing the competing interests involved. In the absence of a genuine, mature, and intractable conflict among the circuits, the policy

issues Tiffany raises are appropriately addressed to the legislature, not to this Court.

STATEMENT OF THE CASE

I. FACTUAL BACKGROUND

The facts of this case – which were not contested on appeal – demonstrate why the Second Circuit was compelled to rule for eBay and why it had no trouble distinguishing *Fonovisa*. They tell a strikingly different story than that presented in Tiffany's petition.

eBay operates a highly successful Internet-based marketplace at www.ebay.com, which provides a venue for third-party transactions that occur directly between eBay users. Pet. App. 4a. As of the time of trial, more than six million new listings were posted on eBay every day, with some 100 million listings appearing at any one time. *Id.* at 5a. eBay does not itself sell the items offered, nor does it ever take physical possession of them; it acts purely as an online marketplace. *Id.* eBay charges sellers a listing fee for each item as well as a "final value fee" based on the sale price of the item. *Id.* Among the items offered for sale, the district court found, were "a substantial number of authentic Tiffany goods." *Id.* at 6a.

As the Second Circuit noted, eBay's ability to detect listings for counterfeit goods is limited by the fact that it never takes possession of, and thus cannot inspect, the listed merchandise. *Id.* at 8a, 59a. As the trial record made plain, even were eBay able to inspect the listed items, its ability to detect infringing items would be limited because of the high level of training and the sophistication of the appraisal techniques necessary to conclusively determine the

authenticity of purported Tiffany merchandise. *Id.* at 51a.

Notwithstanding the foregoing, as the district court's findings show, eBay goes to extraordinary lengths to discourage the sale of counterfeits on its site, to assist rights owners in identifying counterfeits, and to remedy violations. Indeed, as the district court found, "Tiffany and eBay alike have an interest in eliminating counterfeit Tiffany merchandise from eBay – Tiffany to protect its famous brand name, and eBay to preserve the reputation of its website as a safe place to do business." *Id.* at 44a. The Second Circuit likewise concluded that "private market forces give eBay and those operating similar businesses a strong incentive to minimize the counterfeit goods sold on their websites." *Id.* at 31a.

Reflecting this "strong incentive," eBay's investment in anti-fraud measures has been truly "substantial." *Id.* at 60a. It expends up to $20 million each year on tools to promote safe trading on its site and dedicates hundreds of people to such measures. *Id.*

Specific counterfeit prevention measures eBay has adopted include:

- developing, over a decade ago, a notice-and-takedown system (the Verified Rights Owner ("VeRO") Program) pursuant to which more than 14,000 intellectual property rights owners, including Tiffany, can report to eBay listings

offering potentially infringing items, so that eBay can remove them, *id.* at 9a, 64a;[1]

- removing reported listings upon receipt of infringement reports, almost always within twelve hours of notification, *id.* at 10a, and three-quarters of the time within four hours. *Id.* at 65a. eBay cancels any fees it earned from such listings and directs buyers not to consummate the sale of the disputed items, *id.* at 25a;
- "never refus[ing] to remove a reported Tiffany listing, act[ing] in good faith in responding to Tiffany's [notifications], and always provid[ing] Tiffany with the seller's contact information," *id.* at 10a (internal quotation marks and citation omitted). Tiffany itself acknowledged that by using the VeRO Program it succeeded in reducing the number of potentially counterfeit items listed on eBay, *id.* at 85a-86a;
- establishing, with its subsidiary company PayPal, "buyer protection programs," under which buyers may be reimbursed for the cost of items purchased

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[1] The district court found that Notices of Claimed Infringement ("NOCIs") submitted by rights owners to eBay under the VeRO Program required only "a good-faith belief" that a listing was infringing, as opposed to "a definitive finding that the listed item was counterfeit." Pet. App. 89a. As part of its commitment to combat counterfeit listings, eBay has accepted at face value and acted on these reports. Notably, the district court found that Tiffany sometimes submitted NOCIs reporting listings that turned out to be for genuine item, *id.*, which indicates the difficulty even Tiffany can experience in accurately detecting counterfeits online. Tiffany's inability reliably to identify listings of counterfeits indicates the impracticality of its attempt to shift that policing burden to eBay.

on eBay that are discovered not to be genuine, *id.* at 8a;

- implementing a "fraud engine" that uses rules and models to flag and remove from the eBay website listings of potentially illegal items, including counterfeit listings, *id.* at 8a-9a. eBay also has periodically conducted manual reviews of listings in an effort to remove those that might be offering counterfeit goods, *id.*;
- allowing intellectual property rights owners, including Tiffany, to create an "About Me" webpage on eBay's website to inform eBay users about their products, intellectual property rights, and legal positions, *id.* at 10a-11a;
- regularly suspending users from its website, *id.* at 11a-12a, in addition to taking actions regarding particular listings;
- consistently taking steps "to improve its technology and develop anti-fraud measures as such measures become technologically feasible and reasonably available," *id.* at 13a (internal quotation marks and citation omitted); by late 2006, for example, eBay had implemented additional measures, including delaying the ability of buyers to view listings of certain brand names, including Tiffany, so as to allow more time for removal of listings that might pose problems, *id.* at 12a. Tiffany conceded at trial that these measures had markedly reduced the incidence of allegedly counterfeit Tiffany listings. *Id.* at 86a.

By contrast, the trial record demonstrates that Tiffany – which bears the principal burden of policing infringing uses of its trademarks – has done little to protect them. The district court found that

although Tiffany participated in the VeRO Program, it "invested relatively modest resources" to combat online counterfeiting, *id.* at 77a, budgeting less than 0.05 percent of its net sales to the problem. *Id.* Tiffany's time devoted to monitoring the eBay website and to preparing VeRO notices was "limited," *id.*, and it rejected eBay's suggestion of technological tools to facilitate reporting and made no attempt to develop its own technology to expedite monitoring and reporting to eBay. *Id.* at 78a.

The district court concluded that more aggressive pursuit of direct infringement actions by Tiffany against the sellers of counterfeit goods "might have had a significant deterrent effect on potential future infringers on eBay and other websites," *id.* at 87a n.22, and that more active participation by Tiffany in the VeRO Program "could have captured more of the infringing listings" of which Tiffany complained. *Id.* at 79a.

The district court found, moreover, that Tiffany's efforts to quantify the listings for counterfeit Tiffany items on eBay, chiefly in the form of "Buying Programs" conducted in 2004 and 2005, were fundamentally flawed because, among other things, Tiffany *suspended its VeRO reporting efforts* while the Buying Programs were in effect. *Id.* at 82a. Accordingly, the district court concluded, the results of the Buying Programs "did not even purport to reflect the number of potentially counterfeit Tiffany items available on a typical day." *Id.* at 139a-140a.

Tiffany also repeatedly failed to articulate clearly and consistently the additional steps it believed eBay was obliged to take in response to general awareness of the possible presence of counterfeit Tiffany items on eBay's site. For example, Tiffany urged prior to

trial that eBay ban listings of five or more Tiffany items, asserting that such listings were almost certainly of counterfeit merchandise. But throughout trial Tiffany was unable to define what it meant by this demand (and presumed basis for injunctive relief) – so much so that the district court found Tiffany's position to have "shifted throughout litigation," *id.* at 138a, and to have been virtually repudiated as a litmus test for infringing listings by Tiffany's CEO on the witness stand. *See id.* at 75a. Moreover, Tiffany "failed to present sufficient evidence demonstrating that a seller offering five items or more of Tiffany jewelry is presumptively dealing in counterfeit merchandise." *Id.* at 137a; *see also id.* at 30a n.12 (Second Circuit agreeing with district court's finding that the "five or more" presumption was "factually unfounded").

Less mysterious were Tiffany's other goals in pursuing this litigation. Both courts below noted "some basis in the record for eBay's assertion that one of Tiffany's goals in pursuing this litigation is to shut down the legitimate secondary market in authentic Tiffany goods," *id.* at 7a, 134a n.36 – which would, in fact, be the natural consequence of shifting Tiffany's trademark policing obligations onto eBay.

II. THE DECISIONS BELOW

Both the district court and Second Circuit correctly interpreted *Inwood*'s contributory trademark infringement test as placing on Tiffany the burden to demonstrate that eBay failed to take appropriate remedial action after having been made aware (by Tiffany or otherwise) that specific listings offered purportedly counterfeit Tiffany goods. Both courts rejected Tiffany's alternative interpretation of *Inwood* as requiring only that Tiffany demonstrate

eBay's general awareness that counterfeit Tiffany goods may be offered on its site at any given time.

Applying this settled law to the trial record, the Second Circuit affirmed the district court's conclusion, in a finding that was not contested on appeal, that eBay took prompt remedial action whenever eBay knew or had reason to know of specific listings for asserted counterfeit Tiffany items. Pet. App. 30a ("Tiffany has failed to establish by a preponderance of the evidence that there were any instances where eBay was given specific notice of a potential infringement and failed to act."); *id.* at 148a.

Both the district court and the Second Circuit further found that eBay voluntarily exceeded its duties under *Inwood* by implementing anti-counterfeiting measures and expending substantial resources in the interest of "preserv[ing] the reputation of its website as a safe place to do business." *Id.* at 44a. In stark contrast to the defendants in *Fonovisa*, eBay "did not ignore the information it was given about counterfeit sales on its website," *id.* at 34a, but instead took prompt remedial measures, including additional anti-fraud measures sought by Tiffany, "as soon as [eBay] was reasonably and technologically capable of doing so." *Id.* at 144a.

Because the Second Circuit's ruling in favor of eBay was faithful to courts' unvarying interpretation of the *Inwood* standard – and thus entailed an application of settled law to undisputed facts – Tiffany's petition presents no issues warranting review.

REASONS FOR DENYING THE PETITION

The conflict Tiffany posits between the Second and Ninth Circuits does not exist. *Fonovisa* never considered the question of law on which Tiffany seeks review, and it involved fundamentally different facts from which no conflict of law even theoretically could arise.

Fonovisa concerned the alleged willful blindness of a swap meet operator to specifically identified trademark infringement on its premises, whereas eBay, concededly always acting in "good faith," not only removed every listing brought to its attention by Tiffany, but proactively took additional, extraordinary measures to forestall counterfeiting on its site. The Ninth Circuit in *Fonovisa* never considered whether – let alone held that – *Inwood* imposes a policing duty based on general knowledge of infringement. There is, in short, no conflict whatsoever in how the Ninth and Second Circuits interpret *Inwood*; this case and *Fonovisa* differ on their facts, not in the rule of law applied.[2]

The Second Circuit's reading of *Inwood* as requiring actual or constructive knowledge of specific infringing listings is dictated by the plain language of *Inwood*; is reinforced by this Court's explanation of *Inwood* in *Sony*; and is consistent with the position of every other federal court to address *Inwood* –

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[2] As the Second Circuit recognized, the Ninth Circuit did not conclude that the defendants in *Fonovisa* were in fact contributory infringers but instead "merely sustained the plaintiff's complaint against a motion to dismiss," Pet. App. 34a n.16, giving them the opportunity to prove willful blindness to trademark infringement at trial. Here, Tiffany has already had that opportunity and failed to prove willful blindness or other facts sufficient to establish liability.

including the Ninth Circuit. Tiffany never contested on appeal that *Inwood* controlled this case, *see* Pet. App. 25a, 27a, and its argument that the Second Circuit misapplied *Inwood* to undisputed facts does not merit the Court's consideration. *See* SUP. CT. R. 10.

Neither Tiffany's policy arguments relating to online counterfeiting nor the foreign rulings Tiffany cites provide a basis for granting a writ of certiorari. Tiffany urges the Court to depart from *Inwood* and embrace a "generalized knowledge" standard based on "profound changes" brought about by Internet commerce. Pet. 24. But if eBay were held liable based merely on general awareness of infringing sales, it could not practicably avoid future liability except by removing all listings of trademarked items – genuine and counterfeit alike. If such a profound change is to be made to trademark law in the context of Internet commerce – a change eBay believes to be wholly unwarranted – it should be made by Congress after weighing the public benefits and burdens involved, not by judicial alteration of settled trademark rights.

As for the international decisions Tiffany cites, this Court should not grant certiorari merely to resolve some purported tension with *foreign* decisions applying differing foreign laws – especially given that trademark law is, by nature, territorial.

The Court should deny the petition.

I. THERE IS NO CONFLICT AMONG THE CIRCUITS AS TO WHETHER GENERAL KNOWLEDGE OF INFRINGEMENT ESTABLISHES LIABILITY UNDER *INWOOD*.

Tiffany's claim that the Second Circuit's decision conflicts with the Ninth Circuit's holding in *Fonovisa* is baseless. *Fonovisa* never discussed the knowledge requirement under *Inwood*, much less held that general knowledge of infringing activity establishes liability under *Inwood*, as Tiffany asserts. *Fonovisa* involved operators of a swap meet who were repeatedly notified by the county sheriff that a discrete group of vendors – who could be physically observed and whose goods easily could be physically inspected by the defendants – were selling large numbers of counterfeit recordings, some 38,000 of which already had been seized by law enforcement. 76 F.3d at 261. The defendants were alleged to have done nothing to crack down on offending vendors, to assist the sheriff's department in doing so, or to provide promised information on the vendors to the authorities. *Id.*; *see also Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1494-95 (E.D. Cal. 1994), *rev'd*, 76 F.3d 259 (9th Cir. 1996).

In assessing whether these allegations stated a claim for contributory trademark infringement, the Ninth Circuit had no occasion to – and never did – address the distinction between general and specific knowledge of infringement. Nor did the court opine on whether general knowledge alone establishes contributory liability. Rather, the principal question on appeal was whether *Inwood*, which on its face applies to manufacturers or distributors, also applies to the operators of a swap meet. The Ninth Circuit held that it did, agreeing with the Seventh Circuit

"that contributory liability could be imposed if the swap meet was 'willfully blind' to the ongoing violations." *Fonovisa*, 76 F.3d at 265 ("*Hard Rock Café*'s application of the *Inwood* test is sound; a swap meet can not disregard its vendors' blatant trademark infringements with impunity" (quoting *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992)).

Tiffany contends that *Fonovisa* is relevant here because the allegations in that case were enough to show "general knowledge" of infringement but insufficient to show "*which particular*" recordings or vendors were infringing. Pet. 19 (emphasis in original). But the *Fonovisa* defendants allegedly had been notified of *specific vendors* offering thousands of counterfeit recordings on physical premises the defendants controlled, in response to which they did nothing. To the extent the defendants lacked knowledge of specific counterfeit recordings, it was only because they had chosen to remain willfully blind. That is why the holding that "liability could be imposed if the swap meet was 'willfully blind' to the ongoing violations," 76 F.3d at 265, was dispositive of the plaintiff's ability to state a claim of contributory trademark infringement. Since it is indisputable that eBay, unlike the defendants in *Fonovisa*, was *not* willfully blind to infringement, *see* Pet. App. 34a, *Fonovisa* is inapposite.

Far from creating a circuit split, the Second Circuit expressly *agreed* with *Fonovisa* and *Hard Rock* that a service provider "may not shield itself from learning of the particular infringing transactions by looking the other way." *See id.* at 32a (citing *Fonovisa* and *Hard Rock* approvingly). The Second Circuit had no difficulty distinguishing the

facts and allegations of those cases, *id.* at 34a and n.16, concluding that eBay "did not ignore the information it was given about counterfeit sales on its website" and "promptly . . . remove[d] the challenged listing[s] from its website, warn[ed] sellers and buyers, cancel[led] fees it earned from that listing, and direct[ed] buyers not to consummate the sale of the disputed item." *Id.* at 25a, 34a.

The rule of law that Tiffany purports to derive from Ninth Circuit precedent – that general knowledge of trademark infringement is sufficient to establish contributory liability – is not found in *Fonovisa* or in any other Ninth Circuit decision. Indeed, more than a decade after *Fonovisa*, the Ninth Circuit stated that the relevant prong of *Inwood* requires that "a defendant must have . . . continued to supply an infringing product to an infringer with knowledge that *the infringer* is mislabeling the particular product supplied." *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007) (emphasis added). Moreover, although contributory trademark infringement is "more narrowly drawn" than contributory copyright infringement, *Hard Rock*, 955 F.2d at 1150, the Ninth Circuit also held, in a post-*Fonovisa* copyright case, that "absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement." *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001).

Tiffany's "general knowledge" standard is not only unsupported by case law but is at odds with a large body of precedent that recognizes, as the Seventh Circuit reaffirmed in *Hard Rock*, that there is "no affirmative duty to take precautions against the sale of counterfeits." 955 F.2d at 1149. Yet that

is precisely the duty Tiffany would impose on third parties such as eBay. As the courts below recognized, Tiffany's "general knowledge" formulation would effectively require eBay to take precautions against potential counterfeiters even in the absence of knowledge of specific claimed infringements. Pet. App. 32a n.14, 145a. No support for shifting this burden exists in *Fonovisa*, *Hard Rock*, or any other case.

The absence of a conflict with any other federal decision is unaltered by Tiffany's belated plea for the Court to "select[] . . . appropriate standards for contributory liability in the context of Internet commerce." Pet. 2. It is true, as the Second Circuit observed, that it was "apparently the first [appellate court] to consider [*Inwood*'s] application to an online marketplace." Pet. App. 22a (emphasis added). But the parties' dispute before the Second Circuit centered around the correct interpretation of *Inwood* without regard to the online context.[3] Tiffany did not contend that a different standard should apply and therefore waived its argument that *Inwood* should be modified in this case.

The fact that the Second Circuit is the first to apply *Inwood* to an online marketplace means that another court of appeals, not this Court, should be the second. This is especially so because there is no indication that any other court, including the Ninth Circuit, would apply *Inwood* differently.

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[3] Tellingly, the principal decision on which Tiffany relied for its interpretation of *Inwood* was (and remains in this Court) a pre-Internet 1946 district court opinion involving the supply of cola products to bars. *See Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir. 1947).

II. THE COURT OF APPEALS CORRECTLY APPLIED *INWOOD* TO THE FACTS OF THIS CASE.

Tiffany argues – based as much on the pre-Lanham Act district court decision in *Snow Crest*, which is briefly cited in *Inwood*, as on *Inwood* itself – that general knowledge of widespread infringement is sufficient to impose liability under the contributory infringement doctrine. *See, e.g.*, Pet. 13-17.[4] But, after a careful review of *Inwood* and its interpretation by this Court in *Sony*, the Second Circuit correctly concluded that Tiffany was reading *Inwood* "too broadly," Pet. App. 28a, and that *Inwood* does not permit liability based on general awareness of infringement.

Inwood involved a contributory trademark infringement claim against generic drug manufacturers arising out of pharmacists' mislabeling of the manufacturers' drugs. The pharmacists who placed another producer's mark on the generic drugs undeniably were liable for trademark infringement. The question was whether the manufacturers also were liable as contributory infringers. The Court explained that contributory trademark liability can arise when a "manufacturer or distributor . . .

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[4] *Snow Crest* supports the Second Circuit's reading of *Inwood*, not Tiffany's. The district court in that case concluded that the defendant's awareness "that unnamed bars in unnamed quantities were serving defendant's product when plaintiff's was called for," 64 F. Supp. at 990, was insufficient to obligate the defendant to "investigate passing off or to take steps to safeguard against such passing off or to eliminate or curtail sale of its products." *Id.* By contrast, the court stated that liability could have been found had the plaintiff provided "notice that *particular named bars* which defendant was continuing to supply were serving defendant's product when plaintiff's product was specifically ordered." *Id.* (emphasis added).

continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement." *Inwood*, 456 U.S. at 854 (emphasis added); *see also id.* at 855 (indicating that defendants' liability depended on whether they "continued to supply cyclandelate to *pharmacists whom [they] knew were mislabeling generic drugs*") (emphasis added). This standard affords no basis for imposing liability based on general knowledge that infringing activity may exist.

Indeed, Justice White, concurring, emphasized that a defendant should not be held liable merely because it "could reasonably anticipate" that some infringement would occur. *Id.* at 860 (White, J., concurring). As he explained, a defendant is not "require[d] . . . to refuse to sell to dealers who merely *might* pass off its goods," and the "mere fact that a generic drug company can anticipate that some illegal substitution will occur to some unspecified extent, and by some unknown pharmacists, should not by itself be a predicate for contributory liability." *Id.* at 861 (White, J., concurring) (internal quotation marks omitted). The majority expressly agreed that a "reasonably anticipate" standard for liability would be "watered down" and "incorrect." *Id.* at 854 n.13.

The Second Circuit's rejection of Tiffany's watered-down anticipation standard faithfully adheres to these observations about the contributory infringement test. The Second Circuit correctly interpreted the "knows or has reason to know" prong of *Inwood* as imposing liability only if eBay had "knowledge of *which particular listings are infringing*," Pet. App. 27a-28a (emphasis added), and, similarly, of "*individuals* who [the defendant] knew or had reason to know were selling counterfeit

Tiffany goods." *Id.* at 30a (emphasis added). The court properly held, in other words, that it is not enough to possess mere general knowledge of potential infringements.

The Second Circuit highlighted the use of the word "one" in *Inwood* -- from the discussion of supplying "*one* whom [the defendant] knows" is infringing a trademark – as denoting individualized, rather than generalized, knowledge. *Id.* at 28a. Further, in keeping with *Inwood*'s rejection of a "reasonably anticipate" knowledge standard, the court explained that a service provider "is not contributorily liable under *Inwood* merely for failing to anticipate that others would use its service to infringe a protected mark." *Id.* at 32a n.14; *see also id.* at 120a.[5]

This reading of *Inwood* is bolstered by this Court's discussion of *Inwood* in *Sony*, a copyright infringement case. The Court in *Sony* observed that the defendant, a home videotape recorder manufacturer, would not have been liable under the "narrow standard" of *Inwood* for distributing its products with knowledge that some would use them for infringing purposes because it did not "supply its products to *identified individuals known by it* to be engaging in continuing infringement of [the plaintiffs'] copyrights." *Id.* at 29a (quoting *Sony*, 456 U.S. at 439 n.19 (emphasis added by Second Circuit)). The Second Circuit, which found that eBay, like

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[5] Throughout this litigation, Tiffany has interchangeably advocated the "reasonably anticipate" and "generalized knowledge" standards for, in reality, they are one and the same. *See, e.g.*, Pet. App. 25a-26a, 118a-119a, 143a-145a. Neither reflects the governing test for the "know or reason to know" prong of *Inwood*, as the Second Circuit recognized.

Sony, did *not* supply its service to known infringers, noted that Tiffany's reading of *Inwood* was "contrary to the interpretation of that case set forth in *Sony*." *Id.*

Other courts, too, have consistently understood *Inwood* to require knowledge of specific infringing conduct.[6] *See, e.g.*, *Perfect 10*, 494 F.3d at 807; *AT&T Co. v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1433 n.14 (3d Cir. 1994) (rejecting liability when defendant "took appropriate steps" "in the instances *where [plaintiff] brought objectionable acts* . . . to the attention of [defendant]") (citation and quotation marks omitted) (emphasis added); *Nintendo of Am. Inc. v. Computer & Entm't, Inc.*, Civ. No. C 96-0187 WD, 1996 WL 511619, at *5 (W.D. Wash. May 31, 1996) ("Contributory trademark liability is applicable if a defendant . . . continues to supply a product knowing that *the recipient* is using the product to engage in trademark infringement.") (emphasis added); *Monsanto Co. v. Campuzano*, 206 F. Supp. 2d 1271 (S.D. Fla. 2002) (refusing to impose liability based on defendant's general awareness of related infringing activity by other third parties); *see also* 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:20 (4th ed. 2010) ("[T]rademark owners may have a difficult road in establishing liability unless notice of specific infringements was unheeded by the service

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[6] The "specific knowledge" requirement of *Inwood* accords with the traditional obligation of trademark owners to police their own trademarks. *See* Pet. App. 151a-152a ("[R]ights holders bear the principal responsibility to police their trademarks." (citing cases)). Tiffany seeks to avoid this fundamental rule of trademark law by significantly lowering the bar for contributory infringement liability.

provider.") (internal quotation marks and citation omitted); Pet. App. 119a (citing cases).

Accepting Tiffany's invitation to impose liability based solely on general awareness of infringement not only would saddle eBay with the very duty to "reasonably anticipate" infringement that *Inwood* expressly rejected, 456 U.S. at 854 n.13, but also would have grave and far-reaching consequences for Internet commerce. As the district court found, a "substantial number of authentic Tiffany goods" are offered for sale by third parties on eBay. Pet. App. 6a. If "the burden to police the Tiffany trademark [were to] shift[] to eBay," *id.* at 152a, as Tiffany urges, it would effectively prevent eBay from allowing *any* listings for Tiffany – whether genuine or not – given the impossibility of guaranteeing the authenticity of all such items. Allowing Tiffany "to shut down the legitimate secondary market in authentic Tiffany goods" in this manner, *id.* at 7a, would, as the Second Circuit explained, "benefit Tiffany" by "diminish[ing] the competition in the market for genuine Tiffany merchandise." *Id.*[7] But the very reduction of competition that Tiffany seeks would harm, not help, consumers. And Tiffany is but one of many thousands of rights owners whose goods are sold on eBay. The legitimate secondary markets for other trademarked goods susceptible to counterfeiting would, of course, be similarly adversely affected by the unprecedented burden-shifting Tiffany urges.

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[7] Another consequence of shifting the enforcement burden by relaxing the knowledge requirement is that it would permit trademark owners such as Tiffany to be lax in their own enforcement efforts, as the district court found to have been true of Tiffany. *See* Pet. App. 77a-79a.

The dramatic change Tiffany advocates is particularly unwarranted because, as the Second Circuit recognized, eBay and similar services already have a "strong incentive to minimize the counterfeit goods sold on their websites" – an incentive attributable to "private market forces." *Id.* at 31a. The record reveals the force of eBay's strong incentive to "preserve the reputation of its website as a safe place to do business," *id.* at 7a, which has led eBay to implement the wide range of anti-counterfeiting measures previously described – many of which far exceed the steps to remedy counterfeiting required by *Inwood*. The market forces guiding online services like eBay, therefore, militate against the radical departure from *Inwood* that Tiffany seeks.

III. TIFFANY RAISES ISSUES OF LEGISLATIVE POLICY APPROPRIATE, IF AT ALL, FOR CONGRESSIONAL, NOT JUDICIAL, REVIEW.

Both settled trademark principles and private-market incentives already satisfactorily address concerns of the type Tiffany raises in its petition. Even were it otherwise, absent a genuine and intractable conflict over the correct application of *Inwood* to an online marketplace, the radical reallocation of traditional burdens of trademark enforcement Tiffany urges would be appropriately addressed to Congress, not to this Court. "[A]s new developments have occurred in this country, it has been the Congress that has fashioned the new rules that new technology made necessary." *Sony*, 464 U.S. at 430-31. The Court in *Sony* explained why this is so in relation to copyright law:

> Sound policy, as well as history, supports our consistent deference to Congress when major

> technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.

Id. at 431. In the trademark context as well, Congress is best equipped to balance the competing interests of trademark owners, on the one hand, and consumers (and the operators of online marketplaces), on the other. If trademark law is to be reconceptualized in the context of Internet commerce, Congress is the branch of government that should undertake that task.

IV. TIFFANY'S ARGUMENTS ABOUT FOREIGN LAW HAVE NO RELEVANCE HERE.

Tiffany's final policy argument – that the Court should interpret *Inwood* in a manner that would harmonize U.S. law with recent foreign court decisions involving eBay – is baseless. Trademark law is territorial, and U.S. courts do not recognize or enforce foreign trademark rulings. *See E. Remy Martin & Co. v. Shaw-Ross Int'l Imports, Inc.*, 756 F.2d 1525, 1531-32 (11th Cir. 1985) ("[W]hen trademark rights within the United States are being litigated in an American court, the decisions of foreign courts concerning the respective trade-mark rights of the parties are irrelevant and inadmissible" (quoting *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 639 (2d Cir. 1956)).

It follows that the foreign decisions Tiffany cites, based on foreign laws that differ from one another and from U.S. law, have no bearing on the proper interpretation or application of *Inwood*. *See, e.g., Kos*

Pharms., Inc. v. Andrx Corp., 369 F.3d 700, 714 (3d Cir. 2004) (refusing to rely upon European proceeding that involved, among other things, "different legal standards than those at issue here" and noting that "[t]rademark standards do not traverse international borders"); *see also Fin. Matters, Inc. v. PepsiCo, Inc.*, 806 F. Supp. 480, 484-85 (S.D.N.Y. 1992) (explaining that "[u]nder the concept of territoriality, which is basic to trademark law, trademark rights exist in each country solely according to that country's statutory scheme") (internal quotation marks and citation omitted).

Moreover, the handful of foreign rulings Tiffany cites are themselves inconsistent, as one would expect given their differing facts and differing applicable laws. Indeed, Tiffany's citation of foreign decisions that have declined to hold eBay liable, *see* Pet. 24-27, undermines its suggestion of an international consensus with which the Court should conform U.S. law.[8] In any event, this Court's

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[8] In one of the French cases cited by Tiffany, for example, the court held that eBay had "fulfilled its obligation in good faith" to address potentially infringing items on its site by setting up systems aimed at detecting such items. *See* Eric Pfanner, *French Court Clears eBay in Selling Fake Goods*, N.Y. TIMES, May 14, 2009, at B10, *available at* http://www.nytimes.com/2009/05/14/technology/companies/14loreal.html. In another case acknowledged by Tiffany, the English High Court of Justice held, among other things, that "[t]here is nothing in eBay's systems and policies which favours or encourages the listing or sale of counterfeit goods. On the contrary, eBay Europe take[s] active steps to prevent or at least minimise such activities." *L'Oreal S.A. v. eBay Int'l AG*, [2009] EWHC 1094 (Ch.) ¶ 377, *available at* 2009 WL 1403418. That court further agreed with eBay's position that, even if eBay had general knowledge "that infringements were likely to occur" but not "foreknowledge of

certiorari jurisdiction is utilized to ensure uniformity of federal law, not to follow the results of foreign decisions applying foreign legal rules to foreign markets and foreign consumers. *See* SUP. CT. R. 10.

CONCLUSION

For the foregoing reasons, the Court should deny the petition for a writ of certiorari to the Second Circuit.

Respectfully submitted,

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the specific infringing acts," such knowledge was insufficient for purposes of liability. *Id.* at ¶¶ 367, 371.